Principal Distribution Certificates

INTRODUCTION

Principal distribution certificates offer credit unions a new way to market savings products to members with higher balances. With principal distributions, members receive periodic income in the form of checks or transfers during the term of the certificate. Members looking for a way to incrementally receive funds from their accounts will appreciate this service.

Credit unions offer this option by configuring Certificate Types that are designed to offer the principal distribution feature. (You can select to require or make it optional in the configuration.) Then when a certificate of this Type is opened, the MSR simply enters the principal distribution amount and whether the member wants to receive funds in the form of a check or as a transfer to a different sub account. Principal distribution funds are disbursed separately from dividend payments so members even have the option of disbursing the funds using different methods. For example, the member could transfer their dividend payments to another (checking) account and send the principal distribution disbursement in the form of a check to their broker.

CONTENTS

CERTIFICATE PROCESSING	2
NOTE ON ONLINE BANKING	3
CONFIGURATION CONSIDERATIONS	4
CERTIFICATE TYPE DEFAULT RENEWAL CODE	4
OPENING A CERTIFICATE	6
CERTIFICATE TYPES REQUIRING PRINCIPAL DISTRIBUTIONS NOTE ON CHANGING THE PAY TO: ADDRESS FOR CHECK DISBURSEMENT CERTIFICATES NOT REQUIRING PRINCIPAL DISTRIBUTIONS	6 6 7
TRANSACTION HISTORY, INQUIRY AND UPDATE SCREENS	8
REPORTS	10

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CERTIFICATE PROCESSING

Principal distribution processing occurs during dividend processing, with the posting of principal distributions (Tran Code 43, Tran Type 38) directly following the payment of dividends (Tran Code 43, Tran Type 39).

When a certificate is opened, its default "Principal distribution method" will default to the "default renewal code" of the Certificate Type. Only disbursement methods of *Check* or *Transfer to* are allowed as disbursement methods for principal distributions – this indicates how the funds will be disbursed to the member. If the "Principal distribution method" of *Transfer to* is selected, a transfer account must be entered. (This account is indicated by the *Trnsr/rdmpt/prin dist acct* field in the Account Update screen.)

 Dividend disbursements on the other hand are processed according to a separate dividend disbursement code and are transferred to a separate dividend transfer account.

If dividends and principal distributions are both disbursed by check, they are mailed as separate checks. Both checks are mailed to the default address of the membership, the primary owner's address. The *Pay To:* address can be changed when opening the Certificate or in the Member Account Update; however, both dividend and principal distribution checks are sent to the same address. (If a dividend check is set to be mailed to an alternate address, a principal distribution check will automatically also be sent there as well.) When **Tool #631** *Print Auto/Mail Check Audit List* is used to select the checks to be printed, the "Certificate dividend check" checkbox also controls the selection of the principal distribution checks. Once this option is selected, **Tool #632** *Print Auto/Mail Checks* then prints both types of checks.

Upon maturity, any funds remaining in a principal distribution certificate that have not been disbursed will be paid in a final lump sum disbursement, via check or transfer (according to the default renewal code of the certificate). This check is also sent to the primary address on the membership (or other Pay To: address if indicated by the certificate).

There are some instances where principal distributions will not be disbursed. If at any time there is not enough money in the certificate to make the principal distribution disbursement, the funds will remain in the certificate and an exception will be printed to the Exception report. Additionally, if the certificate's funds are frozen for withdrawals (freeze codes 1 and 3), principal distributions will not be posted, but will also appear on the Exception report. Refer to page 11 for an example of the Exception report.

It is not recommended that a certificate with a principal distribution also be used to secured loan or any other account. Principal distributions will continue as usual, however, as long as the distribution is over and above the secured amount. In rare cases where dispersing the principal distribution would take the secured funds negative, the principal distribution will not be dispensed and will appear in the exception report mentioned in the previous paragraph.

NOTE ON ONLINE BANKING

Certificate products with principal distributions are not supported at this time via It's Me 247. There is no way to disclose special details pertinent to this sort of account online, and there is no place for the member to indicate a principal disbursement amount. It is not recommended that credits union offers these products on online rate boards, or that they allow members to open this type of certificate online.

CONFIGURATION CONSIDERATIONS

Whether a certificate allows for the principal distribution feature is dependent on its Certificate Type configuration.

The *Allow principal distribution* selection at the top of the Certificate Type configuration screen determines whether principal distributions are required, allowed, or blocked.

There are three options:

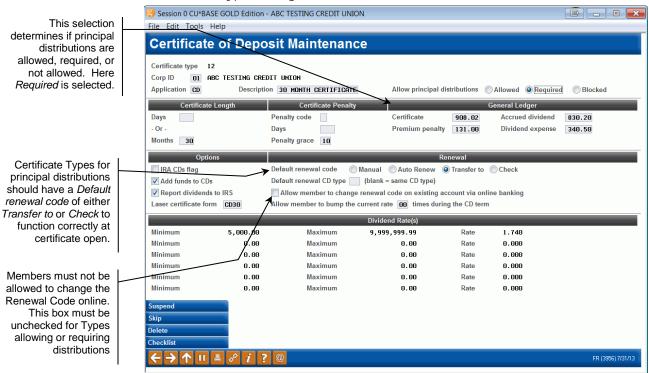


- Allowed (A) When the certificate is opened, the MSR has the option of setting up a principal distribution or not. The feature is allowed but is not required. This might be used if the credit union wants to use an existing Certificate Type for its members wanting this service. (In this case, it is recommended that the default renewal code for the Type be "Transfer to" or "Check" for this Type to function correctly when opening a certificate with a principal distribution.)
- Required (R) All certificates created with this Type will require the
 entry of a principal distribution amount. Credit unions may choose
 to create specific Certificate Types configured in this manner for use
 only with their principal distribution offering.
- *Blocked* (N) This is the default for all Certificate Types. Principal distributions are not allowed for certificates created with this Type.

CERTIFICATE TYPE DEFAULT RENEWAL CODE

At certificate open, the default renewal code of the Certificate Type is used as the default for the principal distribution disbursement method. The default renewal code of the Type is also used to determine how to handle the payment of funds remaining in the account at the end of its term. Therefore, Types designed for use with principal distributions should have a renewal code of either *Transfer to* or *Check*. Additionally, always be sure to uncheck the box in the Certificate Type configuration that allows members to change the renewal code online.

Certificate Type Configuration



OPENING A CERTIFICATE

CERTIFICATE TYPES REQUIRING PRINCIPAL DISTRIBUTIONS

If the Certificate Type "Requires" principal distributions, the corresponding fields will appear automatically in the *Should the Member Receive a Principal Distribution* section. The Principal disbursement method is flooded with the default renewal code of the Certificate Type. In the example above, this was Transfer; however, "Check" could also be selected at this time. If the Transfer is selected, the Transfer account must be entered. In all cases, the principal distribution amount must be entered. This is not system generated; the credit union enters an amount based on its own policy.

Session 0 CU*BASE GOLD Edition - ABC CREDIT UNION File Edit Tools Help **Create/Open New Certificate** CD type 6 MONTH CERTIFICATE MARY M MEMBER 123 MAIN STREET CD amount 500.00 ANYCITY MI 49000 Dec 12, 2013 Jun 12, 2014 [MMDDYY] Issue date Maturity date Joint owner/beneficiaries Dividend disburse code Addback Dividend payment/transaction frequency Monthly Dividend rate 0.050 Dividend variable rate code Should the Member Receive a Principal Distribution Yes, the member should receive a principal distribution (required) Principal amount to be distributed to the member each dividend payment period 196.22 Principal distribution method Transfer Principal distribution account - 000 This Certificate Product's default renewal code is Transfer. A MSR could change this to Check, the only other available option. Since Transfer is selected. Upon maturity, certificate will make one final principal distribution as instructed above and close the MSR must enter the transfer account. Procedures

Certificate Open - Principal Distributions Required

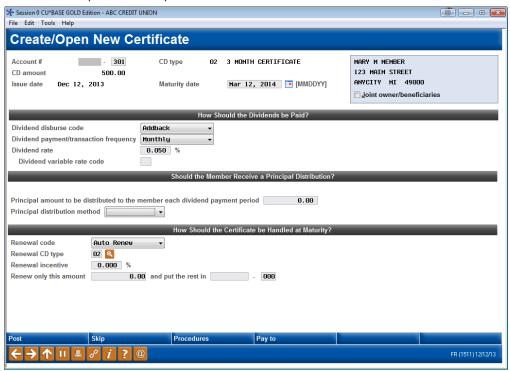
Note on Changing the Pay To: Address for Check Disbursement

If "Check" is selected as the disbursement method, the check will be sent to the address of the Primary member on the membership – unless the Pay To: address has already been changed, for example, to send a dividend check to an alternate address. (Both dividend and principal distribution checks are mailed to the same address.) To change the Pay To: address use F22-Pay To from the screen shown above and change the address to the desired address. This address change can also be made on the Account Update screen.

• By changing this address, the member could select to send their principal distribution payments to a broker or other person.

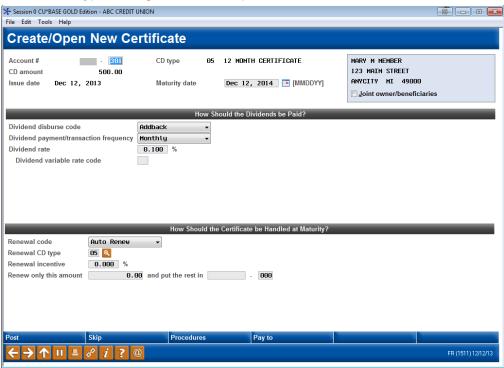
CERTIFICATES NOT REQUIRING PRINCIPAL DISTRIBUTIONS

Certificate Open - Principal Distributions Allowed



If the certificate "allows" principle distributions, the MSR just needs to fill in the principal distribution fields.

Certificate Type Configuration Principal Distributions Not Allowed



If the Certificate Type does not allow for principal distributions, the principal distribution fields will not appear on the screen.

TRANSACTION HISTORY, INQUIRY AND UPDATE SCREENS

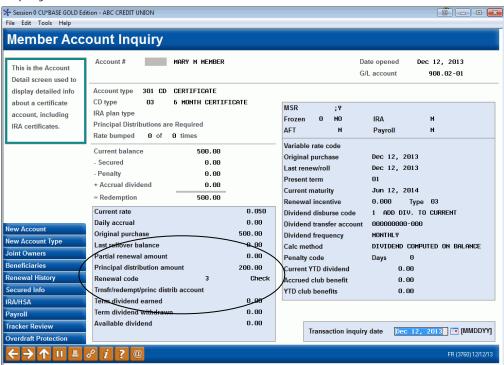
The Transaction History screen lists the distributions as a separate line item, separate from the dividend amount. Both are posted at the same time.

Transaction History Screen

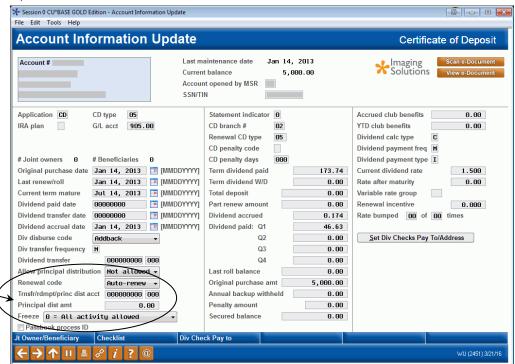


Both the Inquiry and Update views show the principal distribution information.

Inquiry



Update



The certificate distribution amount or distribution account is updated here.

Changes to the principal distribution fields in Update require Tier 2 Security (as shown above).

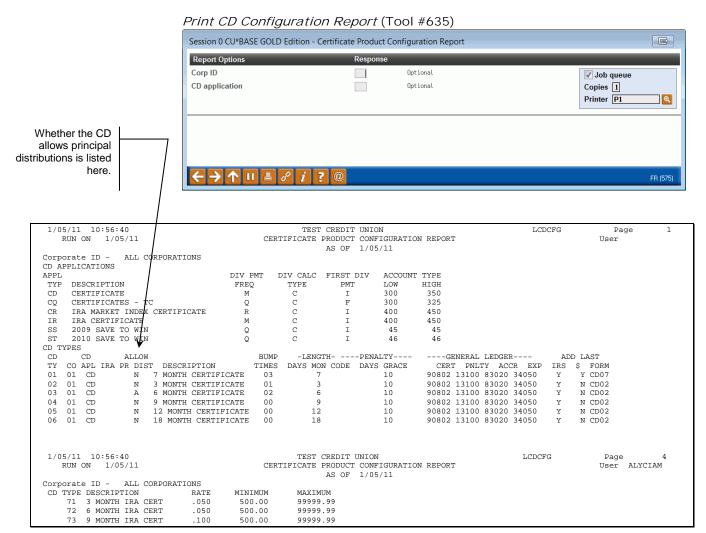
As mentioned earlier, principal distribution checks are mailed to the same address as dividend checks. This Pay To: address is by default to the primary address on the account. By clicking the Set Div Checks Pay To/Address button, a credit union employee can change the Pay To: address for checks that are distributed by principal distribution

 NOTE: This address is also used for the distribution of dividend payment checks.

REPORTS

Certificate Product Configuration Report

A CU*BASE Report, the Certificate Product Configuration Report, lists whether a Certificate Type allows principal distributions.



Two CUSPY Daily Reports assist credit unions who have certificates allowing principal distributions. These reports are generated with the dividend posting reports at Beginning of Day.

Certificate Principal Distribution Report

1/06/11 10:00.53 RUN ON 1/06/11	TEST CREDIT UNION CERTIFICATE PRINCIPAL DISTRIBUTION REPORT	TBCDTB6 PAGE USER	1	
		** PRIN DIS	ST *	
ACCOUNT CD TYPE CD BALANCE 45001-300 25 980.00 TOTAL PRIN TRANSFERRED	PRIN DIST AMT RESULTING BALANCE CERTIFICATE PROCESS PRIN DIST 10.00 970.00 PRIN DIST TRANSFERRED 2 10.00 / 1 ACCOUNTS	METH TRANSFER ACCT NO 45001-000		
TOTAL PRIN PD BY CHECK GRAND TOTAL	.00 / 0 ACCOUNTS 10.00 / 1 ACCOUNTS			
END OF REPORT				

The Certificate Principal Distribution Report (TBCDTB6) lists the principal distribution information.

Certificate Processing Exceptions

The Certificate Processing Exceptions Report (TBDTB3) lists, among other exceptions, instances when there were not enough available funds to process the principal distribution payment. This may occur due to insufficient funds, funds being frozen, or because funds are being used as secured funds. Refer to page 2.

1/05/11 15:06.35 RUN ON 1/05/11	TEST CREDIT UNION CERTIFICATE PROCESSING EXCEPTIONS	TBCDTB3 PAGE 1 USER
ACCOUNT NO. TRANS ID TR DA 45001-300 SH-00034 1/05/		CURRENT BALANCE DESCRIPTION TRACER 980.00 PRINCIPAL DISTRIB 45001-0